

REMARKS BY WILLIAM E. FLAHERTY
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TO THE ANNUAL MARKETING CONFERENCE
SADDLEBROOK, FL

GOOD MORNING, I AM PLEASED TO BE HERE TODAY.

LAST WEEK MANY OF US MADE RESOLUTIONS ABOUT THINGS WE WOULD TRY TO IMPROVE IN 1986. OUR COMPANY HAS TWO SUCH RESOLUTIONS FOR NEXT YEAR. FIRST, TO INCREASE TEAMWORK -- THAT'S CRITICAL. SECOND, TO FOSTER AN EVER INCREASING EMPHASIS ON CONTROLLING EXPENSES AND SEEKING OPPORTUNITIES FOR EFFICIENCY AND PRODUCTIVITY.

SO THE SALES FORCE HAS A VERY IMPORTANT ROLE TO PLAY IN THE FUTURE OF BLUE CROSS AND BLUE SHIELD OF FLORIDA. FOR YOUR PART, WE MUST SEE AN INCREASE IN MARKET PENETRATION AND YOU MUST SPEARHEAD OUR TEAM'S EFFORT IN THAT DIRECTION. IN FACT, YOUR PERFORMANCE DURING THE NEXT TWELVE MONTHS WILL HAVE A MAJOR EFFECT ON THE FUTURE DIRECTION OF THIS COMPANY.

FOR TOO MANY YEARS, WE HAVE TALKED ABOUT INCREASING MARKET SHARE AND HAVE COME UP SHORT. WE ALWAYS HAD EXCUSES -- THE PRODUCTS WEREN'T RIGHT; PRICE WAS TOO HIGH; WE WEREN'T AGGRESSIVE ENOUGH; OR WE NEEDED BETTER SERVICE QUALITY. IN 1986 THESE PROBLEMS WILL NOT SUDDENLY CORRECT THEMSELVES. HOWEVER, STEPS ARE BEING TAKEN TO REDUCE THE EFFECTS OF EACH OF THESE PROBLEMS. BUT THESE EFFORTS WILL BE SUCCESSFUL ONLY WHEN ALL OF THE COMPANY'S MAJOR FUNCTIONAL GROUPS WORK TOGETHER AS A HIGHLY EFFECTIVE

TEAM. THE WINNER IN OUR COMPETITIVE MARKETPLACE WILL BE THE COMPANY THAT CAN ADAPT QUICKLY AND EFFECTIVELY. NO ONE COMPANY, NOT EVEN HUMANA, IS GOING TO BE ABLE TO FIGURE OUT THE MARKET AND LOCK IT UP AND KEEP IT. CHANGE IS GOING TO CONTINUE. MANAGING CHANGE AND DEALING WITH CHANGE IS NOW BUSINESS AS USUAL. THAT MAKES TEAMWORK ABSOLUTELY ESSENTIAL.

TODAY, I'D LIKE TO GIVE YOU A SHORT OVERVIEW OF WHAT'S HAPPENING IN THE HEALTH CARE FINANCING MARKETPLACE.

THEN I WILL EXPLAIN HOW WE ARE REACTING TO THIS CHANGING MARKETPLACE AND TO LET YOU SEE FIRST HAND WHAT WE NEED TO DO AS A COMPANY AND AS INDIVIDUALS IN ORDER TO MAKE BLUE CROSS AND BLUE SHIELD OF FLORIDA SUCCESSFUL.

HEALTH CARE FINANCING MARKETPLACE

FIRST LET'S LOOK AT THE MARKETPLACE. A SUBSTANTIAL SHARE OF THIS COUNTRY'S GROSS NATIONAL PRODUCT IS DEVOTED TO PERSONAL HEALTH CARE SERVICES. THE RATE OF GROWTH OF THAT SHARE APPEARS TO BE SLOWING. NEVERTHELESS, MORE DOLLARS ARE BEING SPENT FOR THESE SERVICES EACH YEAR.

AS A RESULT, WE ARE SEEING REVOLUTIONARY CHANGE IN THE HEALTH CARE INDUSTRY. THESE CHANGES HAVE BEEN STIMULATED BY A VARIETY OF FACTORS, BUT NONE HAS BEEN MORE INTENSE THAN THE SHARP INCREASE IN PREMIUM COSTS. UNTIL JUST A COUPLE OF YEARS AGO, OUR

CUSTOMERS SAW AN AVERAGE ANNUAL RATE OF PREMIUM INCREASE FOR FIVE OR SIX YEARS IN A ROW THAT RANGED FROM 25 TO 35 PERCENT. EVEN THOUGH THE RATE OF THAT RISE HAS ABATED, THE PRESSURE FOR CHANGE HAS REMAINED RELENTLESS.

THESE COST INCREASES HAVE ENLARGED THE SIZE OF THE HEALTH CARE MARKET AND THEREBY INCREASED ITS ATTRACTIVENESS AS AN INDUSTRY. AS A RESULT, MANY NEW COMPETITORS HAVE ENTERED THE MARKETPLACE IN THE FORM OF HMOS AND HOSPITAL CHAINS. THESE NEW ENTRANTS HAVE VERTICALLY INTEGRATED BY COMBINING FINANCING WITH THE DELIVERY OF SERVICES. THIS LARGE POT OF MONEY ALSO CREATED INTEREST IN BUILDING HOSPITALS, IN DEVELOPING SPECIALTY FORMS OF SERVICES, AND IN ENTERING THE MEDICAL PROFESSION.

ONE RESULT IS THAT DOCTORS ARE FACING NEW THREATS AND ANXIETIES. SUPPLY IS OUTPACING DEMAND. THE NET RESULT IS THAT THE RANKS OF PHYSICIANS ARE SWELLING WHILE DEMAND IS DECLINING. IN ADDITION, PHYSICIANS ARE FACING ADDED PRESSURES FROM ALLIED HEALTH PROFESSIONALS, HOSPITALS, ALTERNATIVE DELIVERY SYSTEMS, AND FREE-STANDING OUTPATIENT CENTERS -- ALL OF WHOM ARE COMPETING FOR THIS SAME LIMITED PATIENT BASE.

THE FEDERAL GOVERNMENT UNDER THE REAGAN ADMINISTRATION HAS GIVEN A CLEAR INDICATION THAT IT BELIEVES THE WAY TO RESTRAIN COSTS IS THROUGH COMPETITION. THE ADMINISTRATION HAS ACCENTUATED COMPETITION WITH THE NEGOTIATED FORM OF REIMBURSEMENT.

THE ADMINISTRATION'S LONG TERM PLAN IS TO TRANSFER MEDICARE TO THE PRIVATE SECTOR. THE REAGAN ADMINISTRATION IS CONVINCED THAT THE FUNDAMENTAL INCENTIVES OF THE PROGRAM MUST BE CHANGED IN ORDER TO CONTROL COSTS. THE CURRENT INCENTIVES ONLY INDIRECTLY MOTIVATE PHYSICIANS TO PRACTICE CONSERVATIVELY. THEY WANT BOTH THE HOSPITAL AND THE PHYSICIAN TO RESTRAIN SPENDING. THUS, THEY'RE GOING TO SUPPORT PROGRAMS WHICH DIRECTLY MOTIVATE BOTH PROVIDERS AND PHYSICIANS.

ANOTHER CAUSE OF CHANGE IS THE AGING OF THE POPULATION. IN FACT, THE ELDERLY POPULATION IS INCREASING AT A RATE OF TWO-AND-ONE-HALF TIMES THE POPULATION AS A WHOLE. FLORIDIANS OVER AGE 65 NUMBER 18 PERCENT OF THE POPULATION, AS COMPARED TO ONLY 12 PERCENT NATIONALLY. THE RATE OF HOSPITAL ADMISSIONS FOR PEOPLE OVER 65 IS APPROXIMATELY 3.5 TIMES AS HIGH AS THOSE UNDER 65. THE RISE IN COSTS, TRUST FUND DEPLETION, AND LOOMING FEDERAL DEFICITS WILL CONTINUE TO RESTRICT FUNDING UNDER MEDICARE. THERE IS A NEED FOR PRIVATE SECTOR INITIATIVES TO DEVELOP QUALITY SERVICES TO MEET THE SPECIAL NEEDS OF THE ELDERLY MARKET IN A COST EFFECTIVE MANNER.

BUSINESS AND INDUSTRY ARE ALSO TAKING AN ACTIVE ROLE IN MANAGING HEALTH CARE COSTS. MANY EMPLOYERS IN THE BUSINESS COALITIONS ACROSS THE STATE HAVE CHARTED THEIR HEALTH CARE COSTS AND HAVE DISCOVERED THE POINT WHERE THOSE COSTS EXCEED THE ENTIRE PROFITS OF THEIR CORPORATION. GIVEN THE TREND IN RISING HEALTH CARE COSTS, THAT POINT IS REACHED VERY QUICKLY. THESE EMPLOYERS ARE CONVINCED THAT CHANGES

MUST OCCUR. EMPLOYERS, THROUGH THESE COALITION ACTIVITIES AND OTHER EXPOSURE, ARE GAINING AN UNDERSTANDING OF WHAT CAUSES THE HIGH COSTS OF HEALTH CARE BENEFITS. AS A RESULT, THEY ARE INCREASINGLY WILLING TO NEGOTIATE DIRECTLY WITH PROVIDERS TO OBTAIN COST EFFECTIVE SERVICE.

THE PATIENT IS ALSO ASSUMING A NEW, MORE ACTIVE ROLE IN SELECTION AND USE OF HEALTH SERVICES. CONSUMERS ARE MORE SOPHISTICATED, EDUCATED, PAYING MORE OUT OF THEIR OWN POCKETS, SHOPPING FOR SERVICES, AND DECIDING WHICH PROVIDERS TO USE. IN EVER-GROWING NUMBERS, THEY ARE SHOWING THAT THEY WOULD RATHER HAVE LIMITED ACCESS TO THE HEALTH CARE DELIVERY SYSTEM THAN HAVE TO PAY FOR CONTINUING COST INCREASES.

ONE RESULT OF ALL THE PRESSURES FOR CHANGE THAT HAVE OCCURED IS THE REALIZATION BY MANY THAT THE OLD BRAND OF TRADITIONAL HEALTH INSURANCE WITHOUT COST CONTAINMENT FEATURES IS INEFFICIENT AND OBSOLETE. THE COST OF AN AVERAGE ADMISSION CAN VARY AS MUCH AS 100 PERCENT DEPENDING UPON THE HOSPITAL THAT IS CHOSEN.

TRADITIONAL INSURANCE HAS IGNORED THOSE DIFFERENCES. IT HAS SIMPLY SAID TO THE PATIENT YOU PAY \$100 AND 20 PERCENT OF THE FIRST \$2,000 AND THE INSURER WILL PAY THE BALANCE, EVEN IF IT'S TWICE AS MUCH IN INSTITUTION B AS IT IS IN INSTITUTION A.

DIFFERENCES OF 100 PERCENT ALSO EXIST IN THE FEES BEING CHARGED BY PHYSICIANS. EVEN WE, THE INSURERS, HAVE BEEN BLIND TO THESE DIFFERENCES. THAT'S

ESSENTIALLY WHY TRADITIONAL PROGRAMS WITHOUT COST CONTAINMENT FEATURES HAVE BECOME OBSOLETE. OTHER PLANS HAVE BEEN DEVELOPED THAT ARE NOT BLIND TO THOSE DIFFERENCES AND CUSTOMERS HAVE BEEN GIVEN THE CHOICE OF LIMITED ACCESS AT REDUCED COST. WITH THE OPPORTUNITY TO SAVE MONEY, THEY ARE CHOOSING THE PROGRAMS THAT ARE MORE EFFICIENT.

THE CURRENT ESTIMATE FOR THE NATION AS A WHOLE IS THAT IN AGGREGATE ALTERNATIVE DELIVERY SYSTEMS WILL GROW AT A COMPOUND RATE OF 21 PERCENT PER YEAR FOR THE NEXT 10 YEARS. NATURALLY, HMO'S AND PPO'S WILL NOT BE THE ONLY CHOICES. THERE WILL CONTINUE TO BE A GROWING NUMBER OF CHOICES.

SUCCEEDING IN THIS MARKETPLACE

SO WE'VE SEEN A LOT OF CHANGES IN THE MARKETPLACE. YOU PROBABLY KNOW THE EFFECTS OF THESE CHANGES EVEN BETTER THAN I DO. YOU HAVE TO PLAY YOUR PRODUCT AGAINST THE COMPETITORS EVERY DAY. AND IF THE PRODUCTS NOT COMPETITIVE, THEN YOUR LIFE CAN BECOME PRETTY DIFFICULT.

FROM LOOKING AT THE MARKETPLACE AND THE COMPETITION, IT IS CLEAR IS THAT TO BE SUCCESSFUL WE MUST PROVIDE CUSTOMERS WITH A PRODUCT THAT HAS ADDED VALUE. IT REQUIRES TEAMWORK TO PROVIDE THE KIND OF ADDED VALUE IT TAKES TO WIN AGAINST HUMANA. WE'RE GOING TO TRY TO RAISE VALUE BY IMPROVING SERVICE, BY SHARPENING THE DEALS WITH OUR PROVIDERS, AND BY MONITORING THE EFFECTIVENESS OF OUR BENEFIT MANAGEMENT PROGRAMS. AND WE'RE GOING TO TRY TO MAKE IT EASIER FOR YOU TO COMMUNICATE THOSE ADDED VALUES.

SO THE KIND OF EFFORTS IT TAKES TO PROVIDE THE ADDED VALUE THAT IS NEEDED CAN ONLY COME THROUGH THE COMBINED EFFORTS OF THE VARIOUS FUNCTIONAL GROUPS IN THE COMPANY WORKING TOGETHER AS A TEAM. ONLY THEN CAN WE HAVE QUALITY SERVICE, A COMMITMENT TO QUALITY PRODUCTS, AND A MARKETING MINDSET THAT IS FLEXIBLE IN MEETING THE COMPLEX AND CHANGING NEEDS OF TOUGHER CUSTOMERS.

TO BE SUCCESSFUL IN THIS KIND OF WORLD REQUIRES MORE FROM EACH OF US. WE NEED EFFICIENT DISTRIBUTION SYSTEMS, ACCESS TO MARKETS AND THE ABILITY TO PROVIDE PRODUCTS AT A COMPETITIVE COST. IT MEANS THAT WE MUST BE MORE FLEXIBLE.

LET ME GIVE YOU AN EXAMPLE. BOB MCCAFFREY AND BOB PRALLE ANALYZED OUR LOCAL GROUP BUSINESS AND DISCOVERED THAT 80 PERCENT OF THAT BUSINESS INVOLVES BROKERS, CONSULTANTS AND AGENTS. THE TWO BOB'S FEEL THAT IT WILL NOW BE NECESSARY FOR YOU TO EDUCATE THESE BROKERS, CONSULTANTS AND AGENTS AND GET THEM ON BOARD.

SO HOW DO WE STACK UP AGAINST THE REQUIREMENTS OF THE MARKETPLACE. WELL, I BELIEVE THAT AS INDIVIDUALS WE ARE EACH DEDICATED TO QUALITY SERVICE. SO THE ONLY WAY THAT QUALITY WILL IMPROVE IS THROUGH TEAMWORK. YOU ARE THE REPRESENTATIVE OF OUR COMPANY THAT IS CLOSEST TO CUSTOMERS. IF YOU OBSERVE SERVICE PROBLEMS, SURFACE THEM. QUALITY SERVICE IS EVERYONE'S PROBLEM -- IT DOESN'T JUST BELONG TO OUR CLAIMS PROCESSORS; THEY ARE BUSY PROCESSING OVER 105,000 CLAIMS A DAY. NOR DOES THE PROBLEM OF QUALITY BELONG ONLY TO MEMBERSHIP AND BILLING. IT IS

A PROBLEM THAT CAN ONLY BE SOLVED THROUGH THE PARTICIPATION OF EACH AND EVERY EMPLOYEE. THE THEME WE ARE USING IN OUR EFFORTS TO IMPROVE THE QUALITY OF OUR SERVICE IS "PARTNERS IN QUALITY CHANGE." PARTNERSHIP IS A GROUP EFFORT -- AND WE NEED YOU AS A MEMBER IN THAT GROUP.

THE NEXT THING WE NEED TO BE SUCCESSFUL IS QUALITY PRODUCTS. LAST YEAR ONLY SIX PERCENT OF OUR REVENUES CAME FROM HMOs AND THREE PERCENT FROM PREFERRED PROVIDER ORGANIZATIONS. IN THE FUTURE, WE EXPECT THAT LESS THAN HALF OUR BUSINESS WILL REMAIN IN TRADITIONAL HEALTH INSURANCE. BUT UNTIL WE HAVE OUR HMO AND PPO DELIVERY SYSTEMS FULLY DEVELOPED, WE'RE GOING TO HAVE TO DEPEND ON OUR BREAD AND BUTTER PRODUCTS LIKE TRADITIONAL TO KEEP US IN A STRONG FINANCIAL POSITION. AT THE SAME TIME, WE HAVE TO BE AGGRESSIVELY MARKET OUR PPO AND HMO SO THAT THESE NEW DISTRIBUTION SYSTEMS BECOME SUCCESSFUL PROFIT CENTERS. IT'S GOING TO BE EXTREMELY CHAOTIC PERIOD.

WE'RE IN A PERIOD RIGHT NOW WHERE THERE IS ABSOLUTELY NOTHING WE CAN DO THAT CAN BUY US MORE THAN 18 MONTHS OF ADVANTAGE. IN THE FUTURE, WE'RE GOING TO SEE CHANGE, FOLLOWED BY CHANGE, FOLLOWED BY MORE CHANGE. IN REACTING TO THESE CHANGES WE INTEND TO PROVIDE A SPECTRUM OF CHOICES RANGING FROM HMOs TO PPOs TO A MORE EFFICIENT TRADITIONAL PRODUCT. AND WE WILL DO IT BY WORKING WITHIN THE COMMUNITIES AND WITH LOCAL PHYSICIAN PANELS SO THAT WE CAN DEVELOP PROGRAMS THAT ARE BASED ON AN INHERENT UNDERSTANDING OF THE COMMUNITIES THEY SERVE. UNLIKE MANY OF THE BIG NATIONAL FIRMS, WE WILL NOT USE A COOKIE CUTTER APPROACH. WE'RE GOING TO GIVE COMMUNITIES THE KINDS

OF PROGRAMS THEY WANT AND NOT TRY TO FORCE THE SAME PROGRAM ON EVERYONE. OUR PROGRAMS WILL BE TAILOR MADE FOR THE COMMUNITIES WHICH THEY SERVE AND THEY WILL PRESERVE QUALITY OF CARE. AND THEY WILL CONTINUALLY CHANGE TO MEET THE EMERGING NEEDS OF THE COMMUNITIES THEY ARE MEANT TO SERVE.

RIGHT NOW WE HAVE SOME REAL QUALITY PRODUCTS INCLUDING THE ONLY STATE-WIDE PPO; A FAST DEVELOPING HMO; SOME STRONG UTILIZATION MANAGEMENT PROGRAMS; AN HMO ALTERNATIVE TO MEDICARE; AND A TRADITIONAL PRODUCT THAT HAS BEEN BROUGHT UP TO DATE WITH THE ADDITION OF THREE COST CONTAINMENT PROGRAMS. WE'RE WORKING ON IT AND NEXT YEAR YOU SHOULD HAVE TRIPLE OPTION AS A PRODUCT OFFERING. I THINK YOU WILL AGREE THAT THE PRODUCTS THEMSELVES ARE SOLID.

THE OTHER SIDE OF THE QUESTION, HOWEVER, IS PRICE. WE STILL HAVE A WAYS TO GO THERE, BUT IT IS A PROBLEM THAT WE ARE ATTACKING IN EVERY WAY POSSIBLE. ADMINISTRATIVE EXPENSES MAY ONLY CONTRIBUTE 7 - 1/2 PERCENT TO THE COST OF A PRODUCT, BUT WE ARE DOING EVERYTHING WE KNOW HOW TO KEEP THESE EXPENSES DOWN.

AT THE SAME TIME, WE ARE NOT GOING TO FORGET ABOUT THE OTHER 92-1/2 PERCENT -- PHYSICIAN AND HOSPITAL REIMBURSEMENT. WE ARE WORKING ON WAYS TO NEGOTIATE DEEPER DISCOUNTS. BUT I CAN TELL YOU THIS, IT'S MUCH EASIER TO NEGOTIATE THOSE DISCOUNTS WHEN DEALING FROM A POSITION OF STRENGTH WITH A LARGE MARKET SHARE. SO THE MORE YOU CAN DO FOR US IN TERMS OF MARKET PENETRATION, THE MORE WE CAN DO FOR YOU IN TERMS PRICE. OUR PROBLEM IS NOT THAT UNIT COSTS ARE TOO HIGH. OUR PROBLEM IS THAT OUR MARKET SHARE IS NOT HIGH ENOUGH.

THE OTHER POINT THAT WE NEED TO SUCCEED IS A FLEXIBLE MARKETING MINDSET. I BELIEVE THAT WE HAVE THAT NOW. WE REALIZE THAT THE PRODUCTS WE HAVE WHILE RIGHT FOR TODAY MAY NOT BE RIGHT FOREVER. WE HAVE TO BE CONSTANTLY WORKING ON REFINEMENTS TO OUR PRODUCTS AND PERHAPS NEW PRODUCTS SO THAT WE CAN BE AT THE FOREFRONT; WE CAN'T AFFORD TO TRAIL OUR COMPETITION. I BELIEVE YOU CAN SERVE A VERY IMPORTANT MISSION IN THAT REGARD.

WE NEED GOOD INTELLIGENCE ABOUT OUR COMPETITORS. WE ALSO NEED TO KNOW MORE ABOUT OUR CUSTOMERS WANTS, NEEDS, AND EXPECTATIONS. IF THERE IS A PRODUCT OR A NEW COMPETITOR PRICING STRATEGY THAT'S MAKING IT HARD FOR YOU TO WIN CONTRACTS, SHARE THAT INFORMATION WITH YOUR DISTRICT OFFICE. THE PPO STAFF AND THE HMO STAFF ARE TRACKING THAT INFORMATION AND THEY ARE GOING TO TRY TO SHARPEN THE DEAL FOR YOU SO OUR PRODUCTS REMAIN COMPETITIVE. GIVE THEM ENOUGH DETAILS SO THAT WE CAN START WORKING THE PROBLEM IN JACKSONVILLE. YOU'RE OUT THERE SEEING WHAT'S HAPPENING EVERY DAY. IT'S IMPOSSIBLE FOR US TO SIT BACK IN JACKSONVILLE AND KNOW WHAT'S HAPPENING IN TAMPA OR MIAMI UNLESS YOU TELL US. SO PLEASE CONTINUE TO LET US KNOW WHAT'S GOING ON AND WE'LL TRY TO DEAL WITH THE INFORMATION YOU SEND US IN A MORE SYSTEMATIC MANNER THAN WE HAVE IN THE PAST.

IF YOU PERFORM THAT TASK TO YOUR UTMOST, IT COULD PUT US SIX MONTHS AHEAD IN PRODUCT DEVELOPMENT. THAT'S IMPORTANT TO ALL OF US.

IT'S THE ONLY WAY WE CAN BEAT HUMANA. WE NEED TO KNOW THEIR WEAK POINTS -- WHERE A DEEP DISCOUNT IS GOING TO COST THEM MONEY; WHERE THEY CAN'T BE AS COMPETITIVE OR WHERE THEIR VALUE DOESN'T COME ACROSS.

CONCLUSION

SO YOU HAVE YOUR WORK CUT OUT FOR YOU. 1986 CAN BE A BANNER YEAR BUT IT'S GOING TO TAKE A GROUP EFFORT. TO SUCCEED, WE'RE GOING TO HAVE TO INCREASE MARKET PENETRATION WHILE CONTROLLING OUR EXPENSES. WE'RE GOING TO HAVE TO WORK TOGETHER TO SEE THAT OUR CUSTOMERS ARE GETTING THE QUALITY OF SERVICE THAT THEY DEMAND. WE'RE GOING TO HAVE TO GET YOUR INPUT SO WE CAN DEVELOP BETTER PRODUCTS -- THAT MEANS KEEPING US INFORMED REGARDING COMPETITOR INTELLIGENCE. AND WE'RE GOING TO FIND BETTER WAYS TO USE THE INFORMATION YOU PROVIDE US.

BY WORKING TOGETHER WE HAVE THE CAPABILITY OF PROVING THAT WE ARE THE BEST. WE HAVE THE ABILITY TO PROVIDE OUR CUSTOMERS WITH THE BEST PRODUCTS, PRICES AND SERVICE AROUND. AND WE HAVE THE DUTY TO EXERCISE THAT ABILITY. ONLY THEN WILL OUR GOAL OF INCREASED MARKET PENETRATION BECOME A REALITY.

THANK YOU.

REMARKS BY ROBERT W. MCCAFFREY
SENIOR VICE PRESIDENT, MARKETING

AT THE ANNUAL MARKETING CONFERENCE
SADDLEBROOK, FL
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"MARKETING ON THE HORIZON:
RAINBOW OR T RSTORM?"

[SLIDE #1: MARKETING ON THE HORIZON]

THANK YOU FOR THAT KIND INTRODUCTION. IT PROVES
ONCE AGAIN THAT THE TRUTH CAN BE LIKENED TO A RUBBER
BAND. THAT IS, IF YOU CAN'T STRETCH IT A LITTLE, IT
ISN'T VERY USEFUL.

IT'S A GREAT PLEASURE TO BE HERE. I'VE BEEN
LOOKING FORWARD TO THE OPPORTUNITY OF ADDRESSING YOU
AS A GROUP FOR SOME TIME. AND I HOPE TO CHAT WITH
YOU INDIVIDUALLY AND GET TO KNOW YOU BETTER DURING
THE COURSE OF THIS CONFERENCE.

CONSIDERING THE STATE OF THE COMPANY, THE
CHALLENGES THAT WE HAVE BEEN GIVEN BY THE PRESIDENT,
AND THE IMPORTANT ROLE YOU EACH WILL PLAY IN THE
FUTURE OF THE FLORIDA PLAN, I REALLY THOUGHT A GREAT
DEAL ABOUT WHAT I SHOULD SAY TO YOU TODAY. I WANT TO
BE MOTIVATIONAL, BUT I DON'T WANT YOU TO LEAVE HERE
THINKING THAT MAINTAINING THE STATUS QUO IS ALL THAT
WE NEED. ON THE OTHER HAND I DON'T WANT YOU TO LEAVE
THIS CONFERENCE THINKING THAT THE COMPANY IS IN
TROUBLE OR THAT THE FUTURE LOOKS BLEAK.

I'VE ENTITLED MY REMARKS, "MARKETING ON THE HORIZON: RAINBOW OR THUNDERSTORM?" I THINK THAT SAYS IT ALL. MY MESSAGE WILL BE SERIOUS. I'M NOT GOING TO TRY TO PUMP YOU UP OR DRAG YOU DOWN. INSTEAD, I'M GOING TO LEVEL WITH YOU.

[SLIDE #2: OUTLINE]

TODAY, I'LL TELL YOU -- WHERE WE ARE; WHERE WE WANT TO BE; WHAT WE NEED TO DO TO GET ON THE ROAD TO RECOVERY, AND WHAT MY EXPECTATIONS ARE.

THE CROSS ROADS

[SLIDE #3: WHERE WE ARE]

I'LL BEGIN BY DESCRIBING WHERE WE STAND TODAY. WE ARE AT A CROSS ROADS. WE HAVE SEEN HEALTH CARE EXPENDITURES INCREASE RAPIDLY IN RECENT YEARS. THIS HAS TRIGGERED CHANGES IN THE MARKETPLACE WHICH HAVE PUT THE FLORIDA PLAN INTO AN UNATTRACTIVE COMPETITIVE POSITION.

DURING THE PAST FIVE YEARS, THE MARKET FOR FINANCING, DELIVERING AND ADMINISTERING HEALTH CARE IN FLORIDA HAS GROWN BY ABOUT 16 PERCENT. LAST YEAR OUR PREMIUM INCOME DROPPED. OUR NUMBER OF CONTRACTS HAS ALSO DECLINED. SINCE 1983 OUR MARKETING EXPENSES HAVE INCREASED SIGNIFICANTLY. SO WE ARE NOT SUCCEEDING AS A MARKET DRIVEN ORGANIZATION.

[SLIDE #4: THE CROSSROADS]

BUT WE ARE AT A CROSSROADS. IF WE CONTINUE DOWN THE PATH WE'VE FOLLOWED THE PAST FIVE YEARS, WE WOULD PROBABLY EXPERIENCE A CONTINUED DECLINE IN MARKET SHARE, REDUCED FINANCIAL VIABILITY, AND WOULD SUFFER FROM A DECREASING ABILITY TO MEET THE NEEDS OF THE MARKETPLACE. BY STAYING ON THAT ROAD WE WOULD BE DRIVING INTO A THUNDERSTORM.

SO WE ARE GOING TO HAVE TO TAKE A HARD TURN AND CHANGE THE WAY WE ARE OPERATING. IT'S THE ONLY WAY WE CAN REVITALIZE THE MARKETING ORGANIZATION AND START HEADING TOWARDS THE RAINBOW. WHILE THERE WILL BE A VALUED PLACE FOR THE HARD WORKERS IN OUR REVITALIZED ORGANIZATION; THERE WILL BE NO ROOM FOR POOR PERFORMERS. WE WILL HAVE TO START MANAGING THE CONSULTANT/BROKER/AGENT NETWORK MORE EFFECTIVELY, AND DO A BETTER JOB OF WORKING TO INFLUENCE THOSE OTHER AREAS OF THE COMPANY THAT CAN IMPACT OUR ABILITY TO STRENGTHEN THE COMPANY'S MARKET POSITION.

THE RIGHT PATH

BEFORE WE GET TOO FAR AHEAD OF OURSELVES LET'S TAKE A HARD LOOK AT WHERE WE WANT TO BE. WHAT DOES THAT SPOT AT THE END OF THE RAINBOW LOOK LIKE.

[SLIDE #5: IMPROVEMENTS NEEDED]

AT THE END OF THE RAINBOW, I SEE A FLORIDA PLAN WITH A MUCH LARGER MARKET SHARE.

I SEE POSITIVE FINANCIAL RESULTS FROM GAINS IN UNDERWRITING, INVESTMENT, AND ADMINISTRATION.

I SEE A COMPANY THAT HAS DEVELOPED A MEANINGFUL UNDERSTANDING OF THE UNMET NEEDS OF THE MARKET. IT HAS MECHANISMS TO IDENTIFY NEEDS, TO DESIGN PRODUCTS TO MEET THEM, TO MARKET THOSE PRODUCTS, AND THEN TO DELIVER THEM. AND THE RESULTING PRODUCTS ARE OF HIGH QUALITY.

THE SUCCESSFUL FLORIDA PLAN HAS NEGOTIATED WITH ITS PROVIDERS TO DELIVER INNOVATIVE, HIGH VALUE HEALTH CARE PRODUCTS AND SERVICES.

IT USES INNOVATIVE HEALTH CARE FINANCING THAT CONTINUALLY CHANGES TO MEET THE EMERGING NEEDS OF THE MARKETPLACE.

IT PROVIDES A LEVEL OF SERVICE THAT SATISFIES ITS CUSTOMERS NEEDS AT A COST THAT IS MORE ATTRACTIVE THAN ITS COMPETITORS.

THIS FLORIDA PLAN CONTROLS COST AND SHARES THESE SAVINGS WITH ITS CLIENTS TO ACHIEVE AND MAINTAIN A LEADERSHIP POSITION AS AN EFFECTIVE PROVIDER OF SERVICES.

IT HAS FOUND A WAY TO ACHIEVE ITS OBJECTIVES WHILE MAINTAINING A POSITIVE CASH FLOW.

IT HAS ALSO IMPROVED THE RECRUITMENT, DEVELOPMENT, AND RETENTION OF ITS EMPLOYEES.

AND IT HAS DEVELOPED AND MAINTAINED A POSITIVE IMAGE.

SO YOU CAN SEE, THERE IS QUITE A BIT OF ROAD BETWEEN THE STORM AND THE RAINBOW. AND THE PROBLEMS WE FACE ARE NOT ALL MARKETING PROBLEMS. BUT OUR MARKETING EFFORTS DO NEED REVITALIZATION AND THAT REVITALIZATION DEMANDS SOME SORT OF STRATEGY.

[SLIDE #6: MARKETING MISSION]

BEFORE WE CAN REVITALIZE WE NEED TO DEFINE OUR MISSION AND IDENTIFY THE MARKET DEMANDS. SIMPLY PUT, OUR MISSION MUST BE TO PROVIDE THE MARKETPLACE WITH HEALTH INSURANCE PRODUCTS AND RELATED SERVICES THAT MEET ITS NEEDS. AND IF WE LOOK AT THE MARKETPLACE WE CAN SEE THAT THERE ARE TWO BROAD CATEGORIES OF NEED -- GROUP AND INDIVIDUAL. GENERALLY, THE LARGER GROUPS ARE PRICE/VALUE SENSITIVE WHILE THE SMALLER GROUPS ARE PRICE SENSITIVE. INDIVIDUALS ARE PRICE AND PRODUCT SENSITIVE.

[SLIDE #7: TO BE MARKET DRIVEN]

IF WE WANT TO BE A MARKET DRIVEN COMPANY WE HAVE TO DO TWO THINGS. FIRST, WE MUST STRUCTURE OUR ORGANIZATION TO BEST MEET GROUP AND INDIVIDUAL NEEDS. AND SECOND, WE MUST DEVELOP STRATEGIES FOR PRODUCT, DISTRIBUTION, COMMUNICATION, PRICE, AND SERVICE.

[SLIDE #8: TASKING]

WE HAVE BEEN CHARGED BY BILL FLAHERTY TO PUT TOGETHER PLANS BY THE END OF THE FIRST QUARTER THAT WILL PUT US ON A NEW PATH AND MAKE US A MARKET DRIVEN ORGANIZATION. THE DIVISIONAL VP'S AND I AM INVITING PARTICIPATION IN THIS EFFORT FROM THE ENTIRE SALES FORCE. WE WILL BE SELECTING REPRESENTATIVES TO WORK ON DEVELOPING THESE STRATEGIES FROM EACH OF THE FIELD ELEMENTS. IT'S GOING TO MEAN SOME BIG CHANGES AND MAJOR CHALLENGES FOR EVERYONE, BUT THOSE WHO MEET THE CHALLENGES AND SUCCEED WILL BE REWARDED.

WHAT WE NEED TO DO

THERE ARE A NUMBER OF THINGS WE NEED TO BE ABLE TO DO IF WE ARE GOING TO SUCCEED AT BECOMING MARKET DRIVEN AND FINDING OUR POT OF GOLD AT THE END OF THE RAINBOW.

[SLIDE #9: SUCCESS STRATEGY]

FOR ONE, WE MUST TO BE ABLE TO DIFFERENTIATE OUR PRODUCTS. THIS CAN BE DONE BY EMPHASIZING OUR PPO AND HMO NETWORKS, OUR UTILIZATION MANAGEMENT PROGRAMS, OUR PROFESSIONAL AND PROVIDER RELATIONS, AND OUR PPO MANAGED CARE PRODUCTS WHEN IT IS AVAILABLE. OUR PROGRAMS HAVE ADDED-VALUE, BUT WE NEED TO COMMUNICATE THAT FACT TO CUSTOMER. WE HAVE THE ONLY STATEWIDE PPO NETWORK IN FLORIDA. WE ARE UNIQUE IN HAVING PROVIDER SUPPORT UNITS WORKING WITH HOSPITALS AND PHYSICIANS ALLOWING PAPERLESS CLAIMS PROCESSING. AND AS OF THE FIRST OF THIS YEAR, WE HAVE A STATEWIDE UCR DENTAL PARTICIPATION PROGRAM.

THEN TOO, WE NEED TO EXPAND OUR ACCESS TO THE MARKETPLACE. WE NEED TO TRAIN AND POSITION YOU SO THAT YOU CAN BE MORE EFFECTIVE AND HELP TO MANAGE THE CONSULTANT, BROKER, AGENT NETWORK. THIS CAN HELP YOU TO COVER MORE OF THE MARKET IN A COST EFFICIENT MANNER. DEPENDING ON THE MARKET SEGMENT, CONSULTANTS, BROKERS, AND AGENTS PARTICIPATE UP TO 85% OF PURCHASING DECISIONS. WE HAVE A STATEWIDE AGENCY NETWORK IN PLACE FOR DIRECT PAY PRODUCTS. BUT, GROUP INVOLVEMENT WITH CONSULTANTS, BROKERS, AND AGENTS, WHILE SIGNIFICANT, IS NOT ORGANIZED IN A WAY THAT MAXIMIZES THEIR POTENTIAL TO INCREASE YOUR EFFECTIVENESS.

WE CAN IMPROVE COMMUNICATIONS BY ALLOCATING OUR RESOURCES FOR ADVERTISING AND PROMOTION IN A WAY THAT MOST EFFECTIVELY SUPPORTS OUR PRODUCT DIFFERENTIATION AND DISTRIBUTION STRATEGIES AND OUR CONSULTANT, BROKER, AND AGENT FOCUS. AND WE NEED TO REDIRECT OUR MASS MARKETING EFFORTS IN ORDER TO EXPAND OUR ACCESS TO THE MARKET. ✓

FOR THE SHORT TERM WE MUST IMPROVE PRICING SO THAT WE ARE POSITIONED IN THE LOWER THIRD OF THE PRICE/VALUE SCALE. IN THE LONG TERM OUR GOAL IS TO BE THE BEST BUY IN THE MARKET.

WE NEED TO IMPROVE SERVICE BY CONTINUOUSLY TRACKING THE NEEDS OF THE MARKETPLACE AND QUICKLY DEVELOPING NEW PRODUCTS AND SERVICES TO MEET THOSE NEEDS. THIS MEANS IMPROVING SYSTEMS IN ORDER TO SUPPORT THE REQUIREMENTS OF DIFFERENT MARKET SEGMENTS.

AND WE HAVE TO CONSOLIDATE OUR MARKETING ORGANIZATION TO BEST SERVICE THE NEEDS OF GROUP AND INDIVIDUAL MARKETS AS WELL AS TO BETTER MANAGE OUR BROKER, CONSULTANT, AND AGENT RELATIONSHIPS.

[SLIDE #10: CONSOLIDATION]

THIS WILL REQUIRE A RESTRUCTURING OF THE FIELD OFFICE NETWORK TO BEST SERVE THE MARKET. IT ALSO WILL REQUIRE EVALUATING THE EXISTING MARKETING SUPPORT ACTIVITIES LIKE SALES ADMINISTRATION; TRAINING; THE MAJOR ACCOUNT BID PROCESS; MARKET RESEARCH; AND CONSUMER, BROKER, AND AGENT RELATIONS. IT WILL REQUIRE LOOKING AT THE CURRENT ORGANIZATION

INCLUDING STRUCTURE, PEOPLE, PROCESSES, BUDGETS AND ACTIVITIES TO SEE THAT IT APPROPRIATELY SUPPORTS OUR MARKETING STRATEGIES AND OPERATIONS. AND WE NEED TO DEVELOP AND ENHANCE SYSTEMS TO TRACK AND REPORT PROFITS AND COSTS BY PRODUCT AND MARKET SEGMENT.

WE MUST ALSO DEVELOP MEASURABLE AND ATTAINABLE OBJECTIVES FOR PENETRATION, SALES EFFECTIVENESS, TURNOVER, REVENUES, EXPENSES, ACQUISITION COSTS, SERVICE COSTS, CLAIMS COSTS AND SERVICE.

AND IN REVITALIZING OUR GROUP, WE NEED TO DEVELOP A NEW ORGANIZATIONAL STRUCTURE; DETERMINE WHERE IT IS BEST TO LOCATE OUR FIELD ACTIVITIES AND HOW TO DEPLOY OUR HUMAN RESOURCES.

MY EXPECTATIONS

[SLIDE #11: THE CHALLENGE]


LET ME BOIL ALL THAT DOWN TO ACHIEVABLE SHORT TERM CHALLENGES FOR THE GROUP. I WILL GIVE YOU MY LAUNDRY LIST OF THINGS THAT MUST BE DONE IMMEDIATELY.

FIRST, WE HAVE TO IMPLEMENT PLANS AND PROGRAMS AND WORK WITH OTHER MEMBERS OF THE ORGANIZATION TO MAKE THE CORPORATION MARKET DRIVEN. IT IS GOING TO REQUIRE USING OUR RESOURCES MORE EFFECTIVELY.

SECOND, EACH OF US MUST PLAY A MORE ACTIVE ROLE IN COMPETITOR INTELLIGENCE AND IN IDENTIFYING THE NEEDS OF OUR CUSTOMERS. THE COMPANY NEEDS TO BE ON TOP OF WHAT ITS CUSTOMERS WANT. ONLY YOU CAN PROVIDE THAT INFORMATION. I HAVE ASKED BOB PRALLE TO DEVELOP A WAY OF CAPTURING THE INFORMATION YOU PROVIDE TO US AND THEN CONSOLIDATING THAT INTELLIGENCE AND SHARING IT BACK WITH YOU. WE NEED TO KNOW WHAT THE MARKET IS DEMANDING; WHAT'S HAPPENING WITH OTHER CARRIERS; AND EVEN THE RESULTS OF YOUR QUOTATIONS.

THIRD, WE NEED TO GAIN MORE BUSINESS AT THE LARGE END OF THE MARKET, THE ONLY WAY WE'RE GOING TO DO IT IS BY BETTER MANAGING BROKERS, CONSULTANTS, AND AGENTS. LARGE CORPORATE CLIENTS RELY ON BROKERS AND CONSULTANTS AND INCREASINGLY WE SEE EVEN THE PUBLIC SECTOR USING THEIR SERVICES. WE HAVE A CORPORATE COMMITMENT TO MAKE IMPROVEMENTS IN THIS AREA AND TO HELP YOU TO IMPROVE THESE RELATIONSHIPS. IN FACT, CORPORATE OFFICERS WILL BE INVOLVED IN DEVELOPING THESE RELATIONSHIPS.

FOURTH, WE NEED TO IMPROVE SERVICE. TO OUR CLIENTS YOU ARE BLUE CROSS AND BLUE SHIELD OF FLORIDA. WHEN A CLIENT TELLS YOU ABOUT A PROBLEM, YOU MUST TAKE THE RESPONSIBILITY TO SOLVE IT AS POSITIVELY AS POSSIBLE. AVOID THE TEMPTATION TO PLACE THE BLAME ON JACKSONVILLE. IF THERE IS A BLAME TO SHARE, LET IT BE TRANSPARENT TO THE CUSTOMER.



CONCLUSION

THESE ARE EXCITING TIMES FOR THE COMPANY AND FOR THE MARKETING GROUP -- ESPECIALLY OUR FRONT LINE PERFORMERS IN THE FIELD. THE COMPANY NEEDS THE BENEFIT OF YOUR POSITIVE INFLUENCE ON OUR CUSTOMERS. WE'RE LOOKING FOR STRONG PERFORMANCE FROM YOU. THE COMPANY NEEDS TO TURN AROUND AND ITS EXPECTING THE MARKETING GROUP TO TAKE THE LEADERSHIP ROLE. IN RETURN, WE BELIEVE OUR SUCCESSFUL PEOPLE SHOULD BE AMONG THE HIGHEST COMPENSATED IN THE INDUSTRY. THE FUTURE CAN CATCH US IN A THUNDERSTORM OR AT THE POT AT THE END OF THE RAINBOW, IT'S LARGELY UP TO YOU.

THANKS.